

Environmental Services Budget and Financial Workshop

March 1, 2011



Overview of Results

- **W/WW Revenue Sufficiency Analysis**
 - **Adopted Annual Rate Increases Should be Sufficient Thru FY 2015**
 - **Therefore, No Adjustment Necessary**
- **Solid Waste Revenue Sufficiency Analysis**
 - **Current Tipping Fee Should be Sufficient Thru FY 2012**
 - **Annual Inflationary Rate Indexing Adjustments Starting in FY 2013**

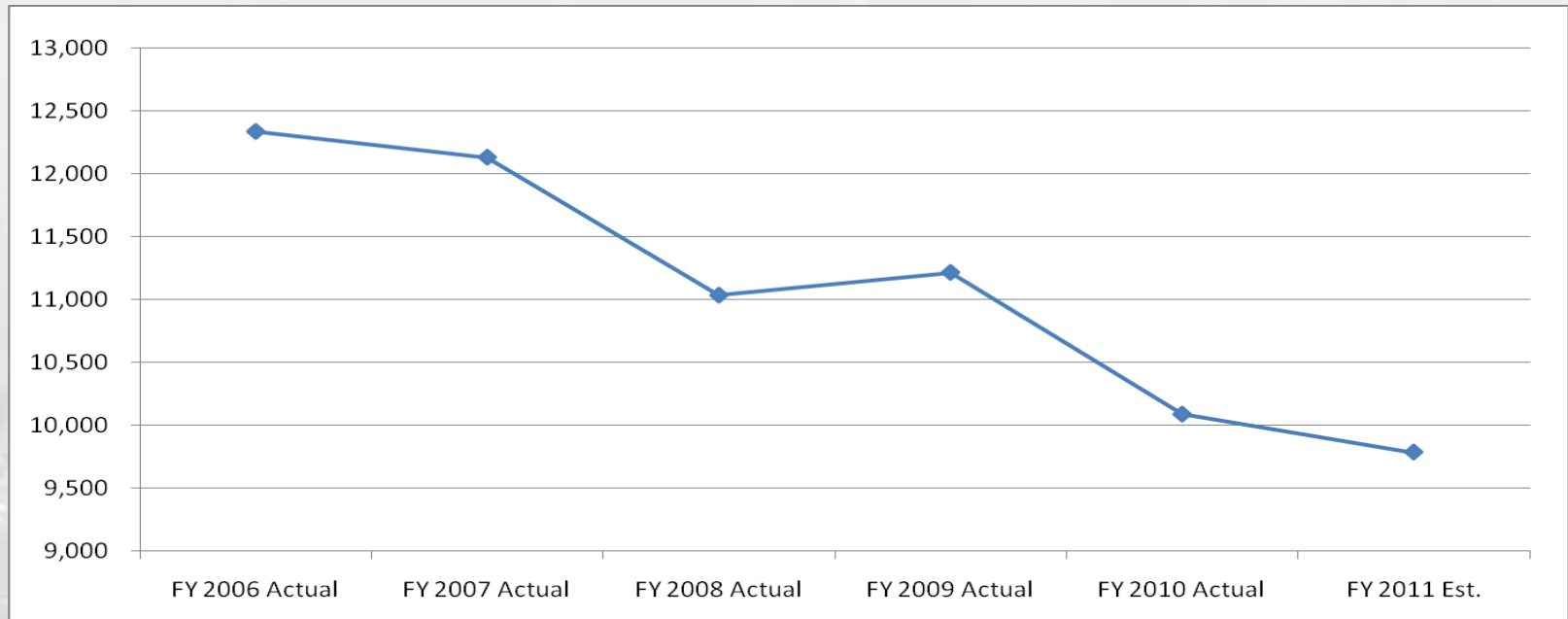
Water/Wastewater Fund

FY 10 Budget Performance

- **Personnel 82% (budget vs. actual)**
- **Operating 88% (budget vs. actual)**
 - **Continue to Seek Reductions**
- **Capital Spent: \$47M**
 - **2006 Bond Funds Available: \$10.9M**
 - **2010 Bond Funds Available: \$31.9M**

Water/Wastewater Key Issues

- **Recent Reductions in Water & Sewer Billed Consumption**
 - **Average Monthly consumption per Equivalent Residential Connection (ERC)**



- **Results in Lower Annual Rate Revenue, Increasing Pressure on Operating Reserves and Debt Service Coverage**

Water/Wastewater Future Issues

- **Future Water & Sewer Billed Consumption**
 - **Monthly Consumption per ERC Continues to Decline**
 - **Water Conservation /Economy/Weather**
- **Future O&M Requirements**
 - **WTP Upgrades for Regulatory Compliance**
 - **Yankee Lake Phase 1 Coming on Line**
 - **I&C Tech and Reclaimed Operator Plus Chemicals/Power**
 - **Improved Maintenance**
 - **Water Conservation Enhancements**
- **Future Regulatory Requirements**
 - **Alternative Water Supply (County Only Option)**
 - **Estimated Future Capital Cost of Approx \$92.3M, in FY 2020**
 - **Estimated Future O&M Costs Approx \$7.8 Million, Beginning in FY 2021**
 - **Other Future Regulatory Requirements to be Determined**

Board Financial Policies

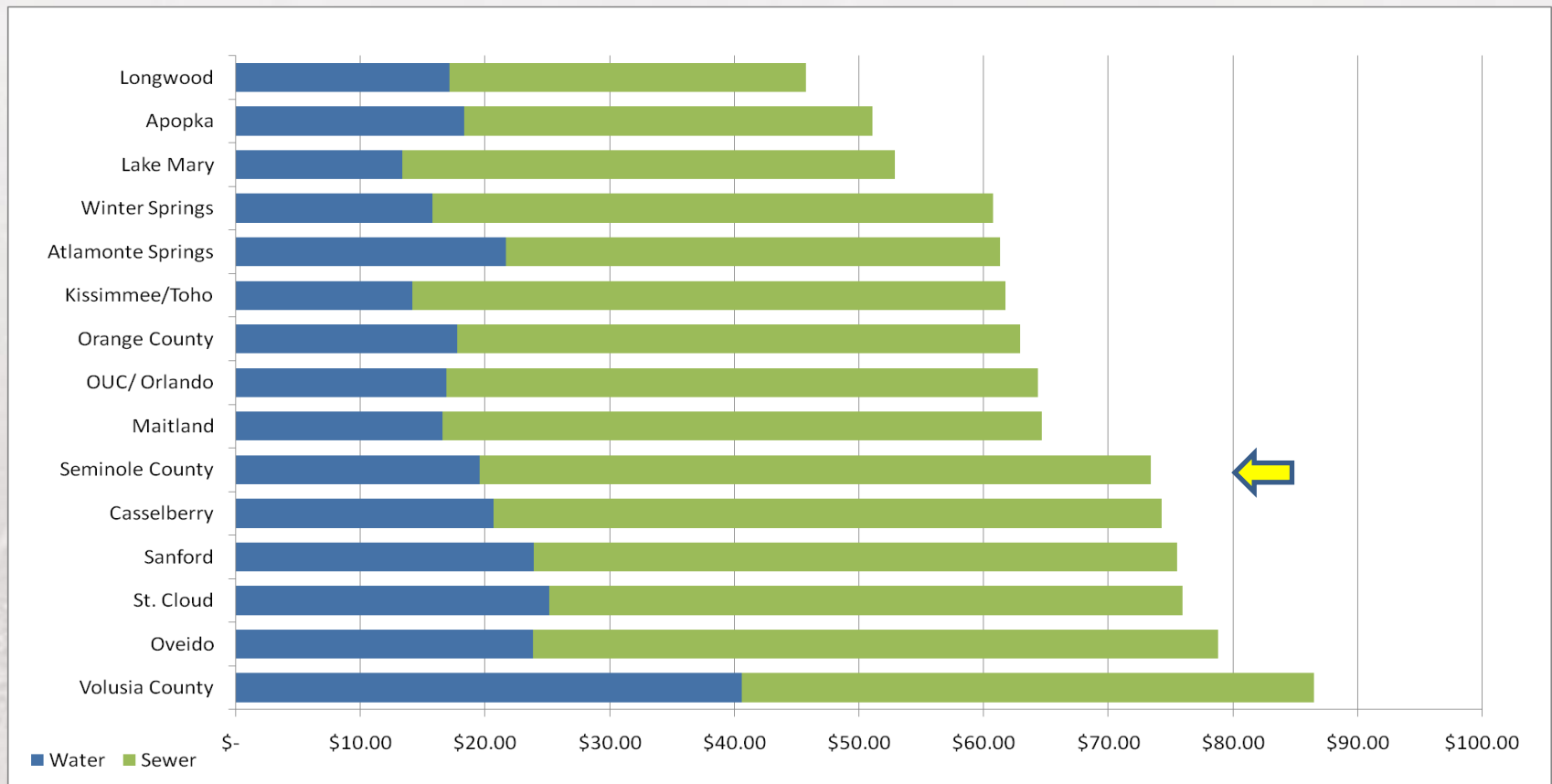
- **Operating Reserves**
 - **Recommended Level: Reserve Equal to 3 Months of Annual O&M Expenses**
 - **About \$5.9M in FY2011**
 - **Within range of Liquidity Identified in Recent Analysis by Rates and Charges Sub-committee of American Water Works Association (AWWA)**
 - **Level is Indicative of “Good” Utility Systems per Guidance Published by the Municipal Utility Rating Agency, Standard & Poor’s**

Board Financial Policies

- **Debt Service Coverage Levels**
 - **Minimum Requirement**
 - **Utility Must Maintain Net Revenues at Least 1.10 Times Greater Than Annual Debt Service Expense, AND**
 - **At Least 1.25 Times Greater Than Annual Debt Service Expense, Including Connection Fee Revenues**
 - **Near-Term Planning Target**
 - **Net Revenues at Least 1.25 Times Annual Debt Service**
 - **Target Indicative of “Adequate” Utility Systems per Guidance Published by the Municipal Utility Rating Agency, Standard & Poor’s**
 - **Long-Term Goal**
 - **Net Revenues at Least 1.50 Times Annual Debt Service**
 - **Target Indicative of “Good” Utility Systems per Guidance Published by the Municipal Utility Rating Agency, Standard & Poor’s**

FY 2011 Residential Rate Comparison

- Combined Water and Sewer Bill at 9,000 Gals/Month



An aerial photograph of a city, likely Los Angeles, showing a large stadium (SoFi Stadium) in the lower-left quadrant and a dense urban area with various buildings and roads. The image is faded and serves as a background for the slide.

Presentation of Interactive Financial Model

An aerial photograph of a wastewater treatment plant. The image shows several large circular clarifiers with white sludge skimmers, and several rectangular aeration tanks. The plant is surrounded by a network of roads and some greenery. The text "Solid Waste System" is overlaid in the center of the image.

Solid Waste System

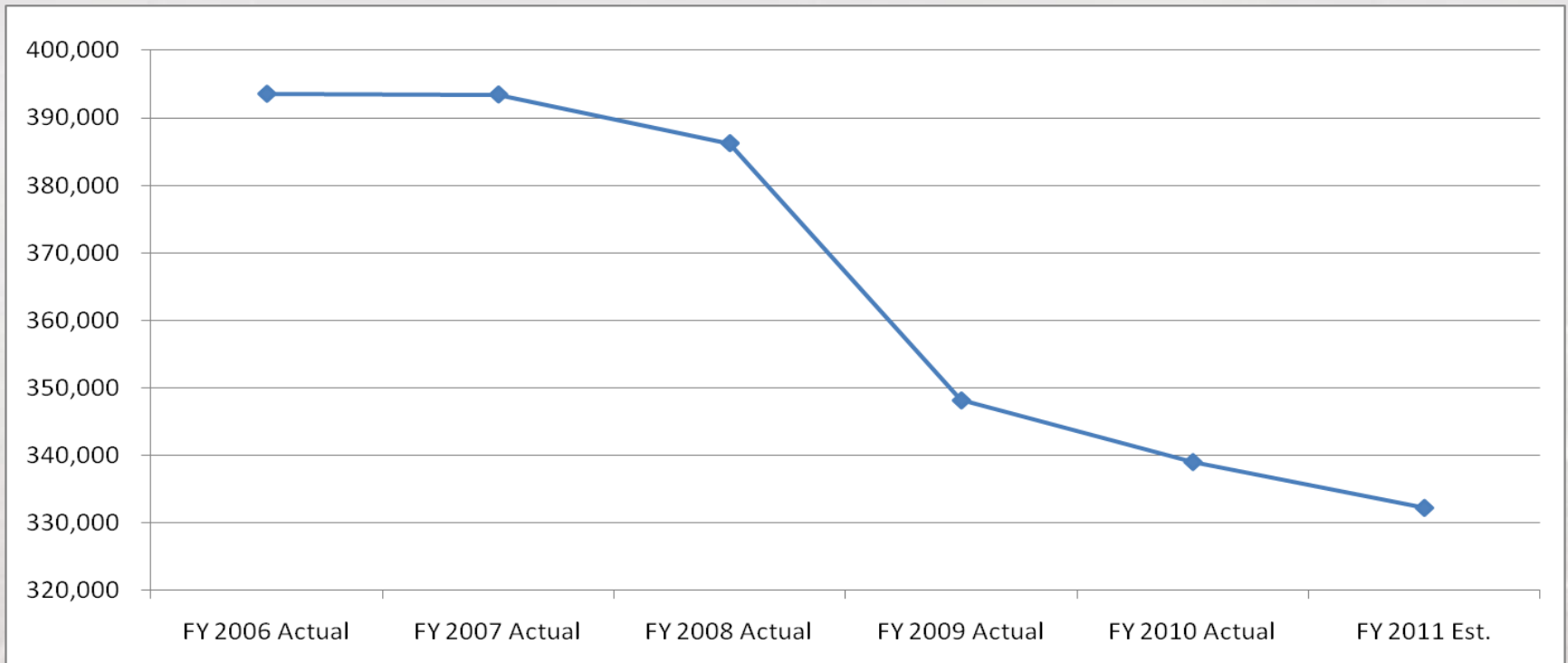
Solid Waste Fund

FY 10 Budget Performance

- **Personnel 94% (budget vs. actual)**
- **Operating 83% (budget vs. actual)**
- **Continue to Seek Reductions in Both Operating and Capital Costs**

Solid Waste Key Issues

- **Recent Reductions in Solid Waste Tonnage**



- **Results in Lower Annual Rate Revenue, Increasing Pressure on Operating Reserves and Debt Service Coverage**

Future Key Issues

- **Future Tonnage Growth**
 - **Analysis Included Review of Three Alternative Future Tonnage Growth Scenarios**

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017–2021
Pessimistic Scenario	-2.00%	0.00%	0.00%	0.00%	1.00%	2.00%
Moderate Scenario	0.00%	0.00%	0.00%	1.00%	2.00%	3.00%
Optimistic Scenario	0.00%	0.50%	1.00%	1.50%	2.00%	3.00%

- **Pessimistic Scenario: Sufficient Operating Reserve Levels Through FY 2017**
- **Moderate Scenario: Sufficient Operating Reserve Levels Through FY 2019**
- **Optimistic Scenario: Sufficient Operating Reserve Levels Through FY 2021**
- **Each Scenario Results in Sufficient Debt Service Coverage in Each Year of Senior Lien Debt Expense**

Key Assumptions

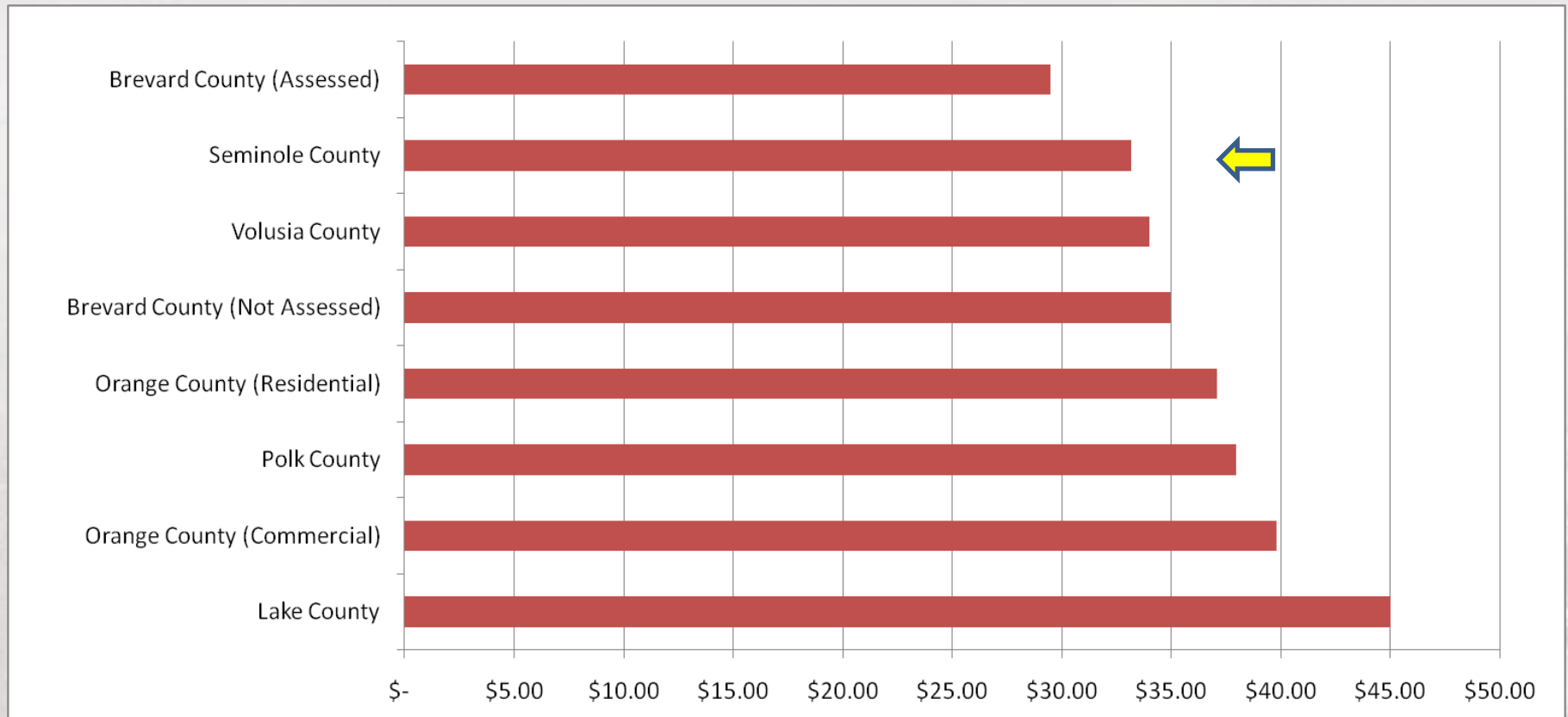
- **Continued Funding of Regulatory Requirements**
 - **SW Fund Must Contribute Annually to Closure Cost Reserve for Funding Future Closure of Landfill, Plus a Minimum of One Year of Long-Term Care Cost**
 - **Analysis Assumes Annual Utility Contributions Sufficient to Fund 30 Years of Long-Term Care Cost**
- **Payment of Solid Waste Revenue Bond**
 - **Due to the Marginal Financial Benefit Received for Pre-Payment of Revenue Bond, Analysis Assumes Annual Revenue Bond Expenditures to be Paid for as Scheduled**
 - **Paying as Scheduled Preserves Higher Level of Operating Reserves Throughout Forecast Period**

Financial Policies

- **Operating Reserves**
 - **Recommended Level: Reserve equal to 12 Months of Annual O&M Expenses**
 - Equal to Approximately \$10 Million in FY 2011
 - For Maintaining Sufficient Liquidity in Event of Catastrophic Event
- **Debt Service Coverage Levels**
 - **Minimum Requirement**
 - Utility Must Maintain Net Revenues at Least 1.15 Times Annual Debt Service Expense
 - **Planning Target**
 - Net Revenues at Least 1.25 Times Annual Debt Service

FY 2011 Tipping Fee Comparison

- Rate per Ton in Surrounding Area



An aerial photograph of a city, likely Los Angeles, showing a large stadium in the foreground and a dense urban area in the background. The image is faded and serves as a background for the slide.

Presentation of Interactive Financial Model

Conclusions/Recommendations

- **Water & Sewer Revenue Sufficiency Analysis**
 - **Approved Annual Rate Increases Should be Sufficient to Fund Utility Requirements Through FY 2015**
 - **Therefore, No Adjustment Necessary**
 - **Beginning in FY 2016, Consider Continuing Plan of 3.00% Annual Indexing Adjustments to Satisfy Future Utility Requirements**
 - **To Maintain “Good” Level of Operating Reserves and Debt Service Coverage**

Conclusions/Recommendations

- **Solid Waste Revenue Sufficiency Analysis**
 - **Current Tipping Fee Sufficient Through FY 2012**
 - **Annual Inflationary Rate Indexing Adjustments Starting in FY 2013**

Discussion



